

S E C R E T

MSGNO 65 (STXX) Z1A *14/07/82* *04:54*
ZCZC 09:51:39Z (ST)

SECRET

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STATE

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NC 9028133

TOR: 140701Z JUL 82

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FM AMEMBASSY PARIS
TO RUEHC/SECSTATE WASHDC 9485
RUFHPP/ALL EC CAPITALS
BT

State Dept. review completed

EZ1:

S E C R E T PARIS 23921

EXDIS

EZ2:

STATE FOR JAMES BUCKLEY, PASS TO NSC FOR WILLIAM CLARK,
COMMERCE FOR OLMER, DEFENSE FOR FRED IKLE
E.O. 12065: GDS 7/12/88 (GALBRAITH, EVAN G.) OR-M
TAGS: PGOV, ETRG, FR
SUBJ: THE STRATEGIC JUSTIFICATION FOR PIPELINE SANCTIONS
REF: PARIS 23676

1. (S - ENTIRE TEXT)

2. IT WOULD APPEAR FROM CONVERSATIONS I HAVE HAD IN
FRANCE THAT THE STRATEGIC IMPACT OF OUR PIPELINE
SANCTIONS IS NOT WIDELY UNDERSTOOD. I SET FORTH
MY ANALYSIS OF OUR STRATEGY, INVITING COMMENT.

3. THE BACKGROUND IS THAT THE SOVIET ECONOMY IS IN
TROUBLE. APART FROM THE SYSTEM ITSELF THERE ARE
SEVERAL PROBLEMS: THERE IS A SERIOUS SHORTAGE OF
FOREIGN CURRENCY IN RELATION TO THEIR EXPANSIONARY FIVE
YEAR PLANS. IN COMMERCIAL TERMS A RAPID EXPANSION
WAS COMMITTED FOR BASED ON A CASH FLOW WHICH HAS
NOT MATERIALIZED, I.E. LIKE BRANIFF AIRWAYS THEY
EXTENDED THEMSELVES AT THE WRONG TIME. THE CASH
FLOW IS DOWN BECAUSE OF THE DROP IN SPOT OIL PRICES,
AS WELL AS PRICES OF DIAMONDS, GOLD AND OTHER RAW
MATERIALS. POOR HARVESTS, POLAND, AND EASTERN
EUROPEAN RESCHEDULING HAVE AGGRAVATED THE SITUATION.
CONSEQUENTLY, THE CREDIT STANDING OF THE SOVIET UNION
IS UNDER SEVERE SCRUTINY AND IT IS UNLIKELY THAT A
BALANCE OF PAYMENTS LOAN BASED ON THE CREDIT OF THE

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SOVIET UNION COULD BE ARRANGED TODAY.

4. THE CURRENT SOVIET PLAN IS TO INCREASE THEIR GAS PRODUCTION BY ABOUT 50 PCT. ONLY ABOUT 15 PCT. OF THIS INCREASE WILL GO TO WESTERN EUROPE, WHILE 85 PCT. WILL BE USED TO ENERGIZE SOVIET INDUSTRY WITH GAS. THIS CHANGEOVER TO GAS WILL NOT ONLY COMPENSATE FOR FALLING OIL PRODUCTION AND ALLOW FOR OIL TO BE EXPORTED, IT WILL SET THE BASE FOR FURTHER INDUSTRIAL EXPANSION WHICH WOULD OTHERWISE NOT BE POSSIBLE. IN OTHER WORDS THE SOVIET EXPORTS OF GAS ARE GOING TO PAY FOR THE PIPELINE WHICH WILL TRANSFORM AND EXPAND THE SOVIET ENERGY BASE WHICH IN TURN SHOULD HAVE A PROFOUND BENEFICIAL EFFECT ON SOVIET INDUSTRIAL AND MILITARY CAPABILITY. I REALIZE I MAY BE OVERSTATING THE SIGNIFICANCE OF THE PIPELINE AND THAT MANY OTHER FACTORS CAN DETERMINE THE ECONOMIC SUCCESS OR FAILURE OF THE SOVIET UNION, BUT THE DEVELOPMENT OF SOVIET NATURAL GAS IS WITHOUT DOUBT ONE OF THE MOST IMPORTANT EVENTS IN THE ECONOMIC HISTORY OF THE SOVIET UNION.

5. THE SOVIET SYSTEM IS STRAINED AND TO BUILD THIS PIPELINE THE SOVIETS MUST IMPORT MATERIALS SUCH AS LARGE PIPE AND LARGE COMPRESSORS. DENYING THEM PRODUCTS SUCH AS ROTORS WHICH COME FROM GE TECHNOLOGY REQUIRES THE SOVIETS TO DO SOMETHING ELSE LIKE REDESIGN, REDIRECT THEIR OWN CAPACITIES, PROCURE ELSEWHERE, ETC.; THIS MEANS DELAYS, AND WHEN THEIR CASH FLOW IS DOWN AND THEIR CREDIT STANDING IS FADING, DELAYS COULD MEAN SERIOUS PROBLEMS. THE PIPELINE COULD BE DELAYED BEYOND THE PERIOD NEEDED TO COMPENSATE FOR THE ROTORS. THE QUESTION I POSE IS WHY SHOULD THE UNITED STATES BAIL THE SOVIET UNION OUT OF ITS PROBLEMS BY ALLOWING IT THE USE OF OUR TECHNOLOGY?

6. THE CONTRACTED-FOR GAS EXPORTS TO EUROPE WILL PROBABLY BE MET EVEN THOUGH THE PIPELINE IS DELAYED BUT ONLY BY DRAWING GAS FROM SOME OTHER USE IN THE SYSTEM, ALL OF WHICH ADDS TO THE OVERALL STRAIN. NOR WILL THE CASH THAT COMES FROM THESE EXPORTS OF GAS SOLVE THEIR PROBLEMS BECAUSE MOST OF IT WILL BE DEVOTED FOR SEVERAL YEARS TO PAYING FOR THE NEW PIPELINE.

7. I DO NOT LOOK UPON THIS ISSUE AS ONE OF EUROPEAN DEPENDENCY (UNLESS THERE IS A THIRD SOVIET TRANCHE TO EUROPE, I.E., A SECOND PIPELINE). NOR IS THE DOLLARS 8 TO 10 BILLION NEW CASH GENERATED BY GAS SALES TO EUROPE THE RANKING PRIORITY OF CONCERN, BAD AS IT IS, BECAUSE THAT CASH WILL BE USED FOR SEVERAL YEARS TO PAY FOR THE IMPORTED MATERIALS. THE IMPORTANT POINT IS THE SOVIETS ARE IN ECONOMIC TROUBLE BECAUSE OF THEIR OWN DOING AND THEIR OWN SYSTEM AND THE UNITED STATES IS PERFECTLY JUSTIFIED IN NOT CHOOSING TO HELP THEM MAKE THE QUANTUM LEAP FORWARD THAT WILL COME FROM THEIR EXPANDED USE OF GAS. OUR POLICY NEED NOT BE CHARACTERIZED AS ECONOMIC WARFARE; IT IS SIMPLY A DECISION NOT TO BAIL THEM OUT EXD15

STATE FOR JAMES BUCKLEY, PASS TO NSC FOR WILLIAM CLARK, COMMERCE FOR OLIVER, DEFENSE FOR FRED IKLE

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OF THEIR TROUBLE OR SUPPORT THEIR EXPANSION, TAKEN
AT A TIME WHEN THEIR AGGRESSIVENESS AROUND THE WORLD
CONTINUES.

8. I THINK IT IMPORTANT EUROPEANS UNDERSTAND
WHAT WE HOPE TO GAIN BY AN ECONOMICALLY WEAKENED
SOVIET UNION. IN MY OPINION THEIR ABILITY TO
SUPPORT EXTERNAL SUBVERSION AND AGGRESSION, I.. E.G.,
CUBA, ETHIOPIA, YEMEN, VIETNAM, EL SALVADOR,
NICARAGUA, AFGHANISTAN COULD BE SEVERELY LIMITED.
SECOND, THE SOVIETS MIGHT BE FORCED BY INTROSPECTION
AND COMPARISON TO MODIFY THE NATURE OF THEIR
ECONOMIC SYSTEM.

GALBRAITH

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